

**VIRGINIA COMMUNITY COLLEGE SYSTEM
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Virginia Community College System for the year ended June 30, 2001, found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider reportable conditions; however, we do not consider any of these to be material weaknesses;

These matters are reported fully in the section of the report entitled “Internal Control and Compliance Findings and Recommendations” and include the following:

- Several colleges need to improve supervisory control over the Small Purchase Charge Card program.
 - Northern Virginia Community College should remove computer access to the Commonwealth Accounting and Reporting System promptly when employees terminate.
 - Paul D. Camp Community College should complete a comprehensive physical equipment inventory.
 - Three colleges should periodically review user access to critical computer applications.
- instances of noncompliance required to be reported; and

These matters are reported fully in the section of the report entitled “Internal Control and Compliance Findings and Recommendations” and include the following:

- Germanna and Piedmont Virginia Community Colleges should improve their procedures for calculating and refunding federal financial aid when students withdraw.
 - Patrick Henry Community College should develop procedures to identify students who discontinue attendance without notifying administrators.
 - Germanna Community College should increase the percentage of College Work Study funds it allocates to community service jobs.
 - Piedmont Virginia Community College should document its calculations for requesting federal fund payments and its reconciliations of the disbursements of federal funds.
- adequate corrective action of prior audit findings, except for the prior year findings titled “Enhance Fixed Asset Procedures” at Paul D. Camp Community College, “Comply with Small Purchase Charge Card Procedures” at Patrick Henry, Germanna, and Tidewater Community Colleges, and “Promptly Remove Computer Access for Terminated Employees” at Northern Virginia Community College.

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May 17, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

The State Board for Community Colleges

We have audited the accounts and records of the **Virginia Community College System** as of and for the year ended June 30, 2001, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of the Virginia Community College System, a component unit of the Commonwealth of Virginia, as of June 30, 2001, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Virginia Community College System as of June 30, 2001, and the changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the Virginia Community College System as of and for the year ended June 30, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Virginia Community College System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards. These instances of noncompliance are described in the section of the report entitled "Internal Control and Compliance Findings and Recommendations."

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting and its operation that, in our judgment, could adversely affect the System's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These reportable conditions are described in the section of the report entitled "Internal Control and Compliance Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected promptly by employees in the normal course of performing their duties. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described is a material weakness.

Status of Prior Findings

Paul D. Camp Community College has not taken adequate corrective action with respect to the previously reported finding "Enhance Fixed Asset Procedures." Patrick Henry, Germanna, and Tidewater Community Colleges have not taken adequate corrective action with respect to the previously reported finding "Comply with Small Purchase Charge Card Procedures" and Northern Virginia Community College has not taken corrective action with respect to the previously reported finding "Promptly Remove Computer Access for Terminated Employees." Accordingly, we included these findings in the section entitled "Internal Control

and Compliance Findings and Recommendations.” The System and its Colleges have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

The “Independent Auditor’s Report on Compliance and on Internal Control Over Financial Reporting” is intended solely for the information and use of the Governor and General Assembly of Virginia, State Board of Community Colleges, audit committee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on July 1, 2002.

AUDITOR OF PUBLIC ACCOUNTS

JHS:aom
aom:64

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Comply with Small Purchase Card Procedures

Applicable to: Germanna Community College
Patrick Henry Community College
Southside Virginia Community College
Tidewater Community College

These colleges did not follow the small purchase charge card procedures by not having the supervisors properly reconcile and approve charges. We found the following:

- Two of three cardholders tested at Germanna did not have the supervisor sign or certify the charge card statements and purchase logs as correct. There were also missing purchase receipts; missing purchasing logs and charge card statements; and no evidence of required monthly reconciliations.
- For seven of nine reconciliations tested at Patrick Henry, neither the cardholder nor the supervisor signed the reconciliation. Additionally, one cardholder signed the reconciliation as both the user and the supervisor. Also, despite a transaction limit of \$500, one individual made a purchase for \$531.
- For two of six reconciliations reviewed at Southside Virginia, the supervisor did not approve the reconciliation. Additionally, Southside Virginia does not have a written policy that requires cardholders to submit reconciled statements before the receipt of the next monthly statement.
- At Tidewater, one employee did not keep descriptions on a purchasing log nor maintain supporting documentation, yet the supervisor approved the employee's reconciliation.

These colleges should carefully re-examine their small purchase card programs and take steps to ensure compliance with all procedures. College supervisors should carefully review cardholder purchases for transactions exceeding cardholder's limit and take appropriate corrective action.

Promptly Remove Computer Access for Terminated Employees

Applicable to: Northern Virginia Community College

Northern Virginia Community College did not promptly remove Commonwealth Accounting and Reporting System (CARS) access for all four terminated employees tested until five months to a year later. Failure to promptly remove computer access for terminated employees could lead to unauthorized use or destruction of critical College data. The College should follow their procedures to promptly remove computer access for terminated employees.

Comply with Inventory Procedures

Applicable to: Paul D. Camp Community College

As reported in our last audit, Paul D. Camp Community College has not completed an equipment inventory since July 1995. The State Comptroller requires every agency to complete an equipment inventory every two years. The College should commit the resources necessary to complete the required equipment inventories.

Monitor Application Systems Access

Applicable to: Central Virginia Community College
Northern Virginia Community College
Tidewater Community College

These colleges do not periodically review user access to critical computer applications. While each of these schools has policies concerning reviewing access, neither Central Virginia nor Tidewater reviewed Student Information System access and Tidewater did not document their review of Financial Reporting System (FRS) or CARS access. Northern Virginia Community College performed system reviews; however, their review of the FRS system failed to detect that eight of nine employees tested had access that they did not need to perform their job duties.

Inappropriate access can result in errors, irregularities, or fraudulent transactions in critical application systems. Management should take steps to determine that personnel adequately perform systems access reviews.

Properly Administer Return of Title IV Funds

Applicable to: Germanna Community College
Piedmont Virginia Community College

Germanna Community College did not always perform Return of Title Funds refund calculations in a timely manner. Piedmont Virginia Community College did not promptly notify students of their Title IV refund obligations. Both colleges failed to promptly return federal funds to the Department of Education.

Colleges are required by 34 CFR Part 668.22 (c) to have a procedure in place to identify students who have withdrawn or ceased attendance, in order to promptly and properly calculate any return of Title IV funds. Part 668.22 (j) requires that schools return unearned Title IV Funds as soon as possible to the U. S. Department of Education, but no later than 30 days after the date the school determined the student withdrew. Part 668.22 (h)(4)(ii) requires that schools notify students of their Title IV refund obligation within 30 days of the date the school determined the student withdrew.

These colleges should follow the Return of Title IV Funds procedures prescribed by the federal government to ensure that withdrawals are properly identified, refunds are properly calculated and returned to the Department of Education, and that students are promptly notified of their obligations.

Identify Students Who Withdraw without Officially Notifying the College

Applicable to: Patrick Henry Community College

The College has no policy in place to identify federal student financial aid recipients who drop out of classes without formally withdrawing. Without a mechanism in place to identify these students, the College is unable to identify students for whom a portion of their federal student financial aid award may be refundable to the Department of Education. The 34 CFR 668.22 (c) and the guidance published by the Department of Education in the Federal Student Financial Aid Handbook, volume 2, chapter 6, requires that schools develop a mechanism for determining whether a student who is a recipient of Title IV grant or loan funds has ceased attendance without notification during a payment period or period of enrollment.

The College should develop a mechanism to identify students receiving federal student financial aid that have constructively withdrawn from the college.

Comply with Federal Work Study Matching Requirements

Applicable to: Germanna Community College

The College did not fully meet the community service effort requirement for the Federal Work Study program. The College used 6 percent of its federal allocation to fund jobs involving community service, just short of the 7 percent required by 34 CFR 675.18 (g). The College is still striving to meet the requirement, and has notified the Department of Education that they have been unable to fully comply with the regulation.

The College should continue in its efforts to meet the community service effort requirement and consult with other colleges and the U. S. Department of Education to identify additional ideas to meet the minimum requirement. If efforts to comply with the community service requirement continue to be unsuccessful, or if the college determines that compliance would cause a hardship to the students, management should consider requesting a waiver of this requirement from the Department of Education.

Properly Reconcile Accounting Records with the Department of Education

Applicable to: Piedmont Virginia Community College

The college does not retain proper documentation of the reconciliation between its records and the Department of Education's Grants Administration Payment System (GAPS) records. The 34 CFR 668.162 (a) (2) requires that each time an institution requests funds, it must identify the amount of funds requested by program and fiscal year designation that the Secretary of Education assigned to the authorization. When making each request, the school must certify that it will use the funds within three business days as required by Cash Management regulations. In order to comply with these regulations, a school must perform regular reconciliations between its accounting records and GAPS. The Blue Book, chapter 4, in "Methods of Receiving Funds" also refers to a school's efforts to reconcile its accounts with GAPS. The 34 CFR 668.24 and the Student Financial Aid Handbook, volume 2, chapter 8, require that an institution establish and maintain records that document its administration of the Title IV programs.

The College should continue to perform the reconciliation between its records and GAPS regularly, and should prepare and retain evidence of the reconciliation, along with any supporting documentation for reconciling items or adjustments.

FINANCIAL STATEMENTS

VIRGINIA COMMUNITY COLLEGE SYSTEM
BALANCE SHEET
As of June 30, 2001

	Current Funds		Loan	Endowment and
	Unrestricted	Restricted	Funds	Similar Funds
ASSETS				
Cash and cash equivalents (Note 3)	\$ 29,375,787	\$ 5,592,836	\$ 588,773	\$ 139,410
Investments (Note 3)	17,158,508	76,817	19,069	230,789
Appropriations available	-	-	-	-
Accounts receivable (Note 4)	4,542,520	555,035	-	-
Notes receivable (Note 4)	-	-	4,135,962	-
Interest receivable	22,701	-	158	-
Loans receivable	8,364	-	-	-
Prepaid expenses	151,542	220	-	-
Due from other funds	281,179	4,382	101	-
Due from grantors	-	385,249	-	-
Inventories	1,542,872	-	-	-
Land	-	-	-	-
Site improvements	-	-	-	-
Buildings	-	-	-	-
Equipment and library books	-	-	-	-
Construction in progress	-	-	-	-
Total assets	\$ 53,083,473	\$ 6,614,539	\$ 4,744,063	\$ 370,199
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 5,412,452	\$ 338,597	\$ 2,554	\$ -
Retainage payable (Note 5)	-	-	-	-
Accrued expenses	15,820,341	901,482	-	-
Accrued leave	23,300,495	531,210	-	-
Due to the Commonwealth	168,750	-	-	-
Deferred revenue	12,047,533	56,726	-	-
Deposits pending distribution	197,092	702	-	-
Due to other funds	4,256	285,062	-	227
Deposits held in custody for others	-	-	-	-
Notes payable (Note 6)	-	-	-	-
Bonds payable (Note 7)	-	-	-	-
Loans payable	-	621,950	-	-
Capital leases payable (Notes 8, 9)	-	-	-	-
Installment payable (Note 8)	-	-	-	-
Total liabilities	56,950,919	2,735,729	2,554	227
Fund balances:				
Unrestricted current funds (Note 13)	(3,867,446)	-	-	-
Restricted current funds	-	3,878,810	-	-
Loan funds, College - Restricted	-	-	1,301,197	-
Loan funds, Federal grant refundable	-	-	3,440,312	-
True endowment funds	-	-	-	14,021
Quasi-endowment unrestricted	-	-	-	190,280
Quasi-endowment restricted	-	-	-	165,671
Net investment in plant	-	-	-	-
Total fund balances	(3,867,446)	3,878,810	4,741,509	369,972
Total liabilities and fund balances	\$ 53,083,473	\$ 6,614,539	\$ 4,744,063	\$ 370,199

The accompanying notes to the financial statements are an integral part of this statement.

Plant Funds					
Unexpended	Renewals, Replacements and Retirement of Debt	Investment in Plant	Agency Funds	Total (Memorandum Only)	
\$ 8,066,376	\$ 173,208	\$ -	\$ 1,332,630	\$ 45,269,020	
13,695,870	-	-	1,376,193	32,557,246	
31,232,874	6,680,673	-	-	37,913,547	
931,160	11,123	-	979	6,040,817	
-	-	-	-	4,135,962	
62,204	2,050	-	-	87,113	
-	-	-	-	8,364	
-	-	-	-	151,762	
8,929	-	-	-	294,591	
-	-	-	-	385,249	
-	-	-	-	1,542,872	
-	-	23,511,818	-	23,511,818	
-	-	52,812,820	-	52,812,820	
-	-	298,977,274	-	298,977,274	
-	-	143,575,748	-	143,575,748	
-	-	92,818,534	-	92,818,534	
\$ 53,997,413	\$ 6,867,054	\$ 611,696,194	\$ 2,709,802	\$ 740,082,737	

\$ 2,066,460	\$ 401,158	\$ -	\$ 9,135	\$ 8,230,356	
2,610,681	22,120	-	-	2,632,801	
-	-	-	-	16,721,823	
-	-	-	-	23,831,705	
-	-	-	-	168,750	
-	-	-	-	12,104,259	
-	-	-	-	197,794	
5,046	-	-	-	294,591	
-	-	-	2,700,667	2,700,667	
-	-	325,000	-	325,000	
-	-	2,743,435	-	2,743,435	
-	-	-	-	621,950	
-	-	30,143,990	-	30,143,990	
-	-	5,715,774	-	5,715,774	
4,682,187	423,278	38,928,199	2,709,802	106,432,895	

12,361,885	2,000	-	-	8,496,439	
36,953,341	6,441,776	-	-	47,273,927	
-	-	-	-	1,301,197	
-	-	-	-	3,440,312	
-	-	-	-	14,021	
-	-	-	-	190,280	
-	-	-	-	165,671	
-	-	572,767,995	-	572,767,995	
49,315,226	6,443,776	572,767,995	-	633,649,842	
\$ 53,997,413	\$ 6,867,054	\$ 611,696,194	\$ 2,709,802	\$ 740,082,737	

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2001

	Current Funds		Loan Funds
	Unrestricted	Restricted	
Revenue and other additions:			
Unrestricted current fund revenue	\$ 458,147,435	\$ -	\$ -
State appropriations - restricted	-	11,125,015	-
Local appropriations - restricted	-	40,484	-
Federal grants and contracts - restricted	-	79,410,378	-
State grants and contracts - restricted	-	6,298,663	-
Local grants and contracts - restricted	-	609,556	-
Non-governmental grants and contracts restricted	-	5,924,991	-
Private gifts - restricted	-	327,967	3,000
Investment income - restricted	-	9,485	5,831
Endowment income	-	3,164	1,721
U.S. government advances	-	-	183,487
Interest on loans receivable	-	-	84,308
Expended for plant facilities (including \$14,608,910 charged to current funds)	-	-	-
Retirement of indebtedness (including \$5,153,073 charged to current funds)	-	-	-
Recovery of writeoffs	-	-	35,618
Maintenance reserve allocation	-	-	-
Other sources	-	-	16,056
Total revenues and other additions	458,147,435	103,749,703	330,021
Expenditures and other deductions:			
Educational and general expenditures	445,467,675	99,744,674	-
Auxiliary enterprises expenditures	8,920,845	-	-
Indirect costs recovered	-	1,629,314	-
Refunded to grantors	-	310,226	43,059
Administrative and collection costs	-	-	71,935
Loan cancellations and writeoffs	-	-	59,780
Expended for plant facilities (includes noncapitalized expenditures of \$4,683,120)	-	-	-
Disposal of plant facilities	-	-	-
Retirement of indebtedness	-	-	-
Liquidation of endowment	-	-	-
Interest on indebtedness	-	-	-
Total expenditures and other deductions	454,388,520	101,684,214	174,774
Transfers among funds-additions/deductions:			
Mandatory	(56,218)	-	56,218
Non-mandatory	(6,755,528)	3,457	17,760
Total transfers among funds	(6,811,746)	3,457	73,978
Net increase (decrease) in fund balances	(3,052,831)	2,068,946	229,225
Fund balance July 1, 2000	(814,615)	1,809,864	4,512,284
Fund balance June 30, 2001	\$ (3,867,446)	\$ 3,878,810	\$ 4,741,509

The accompanying notes to the financial statements are an integral part of this statement.

VIRGINIA COMMUNITY COLLEGE SYSTEM
STATEMENT OF CURRENT FUNDS, REVENUES, EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 2001

	Unrestricted	Restricted	Total
Revenues:			
Tuition and fees	\$ 128,675,736	\$ -	\$ 128,675,736
State appropriations (Note 10)	304,740,085	11,117,232	315,857,317
Local appropriations	1,569,755	46,582	1,616,337
Federal grants and contracts	1,224,026	77,593,340	78,817,366
State grants and contracts	355,193	5,093,518	5,448,711
Local grants and contracts	-	518,146	518,146
Non-governmental grants and contracts	56,388	5,139,251	5,195,639
Private gifts	12,500	233,678	246,178
Endowment income	10,223	2,927	13,150
Sales and services of educational departments	1,164,428	-	1,164,428
Sales and services of auxiliary enterprises	13,518,189	-	13,518,189
Other sources:			
Commissions on auxiliary operations	3,878,584	-	3,878,584
Investment income	699,214	-	699,214
Rents and leases	61,275	-	61,275
Surplus property sales	175,987	-	175,987
Insurance recoveries	101,953	-	101,953
Miscellaneous	1,903,899	-	1,903,899
Total revenues	458,147,435	99,744,674	557,892,109
Expenditures and mandatory transfers:			
Educational and general expenditures:			
Instruction	214,745,581	26,357,569	241,103,150
Public service	3,592,968	46,332	3,639,300
Academic support	53,270,016	27,392	53,297,408
Student services	36,988,597	3,036,070	40,024,667
Institutional support	91,281,224	1,775,420	93,056,644
Operation and maintenance of plant	44,568,918	339	44,569,257
Scholarships and fellowships	1,020,371	68,501,552	69,521,923
Total educational and general expenditures	445,467,675	99,744,674	545,212,349
Mandatory transfers for:			
Loan fund matching grant	56,218	-	56,218
Total educational and general	445,523,893	99,744,674	545,268,567
Auxiliary enterprises:			
Expenditures	8,920,845	-	8,920,845
Total expenditures and mandatory transfers	454,444,738	99,744,674	554,189,412
Other transfers and additions/(deductions):			
Excess of restricted receipts over transfers to revenue	-	2,375,715	2,375,715
Refunded to grantors	-	(310,226)	(310,226)
Nonmandatory transfers:			
(To)/from current funds	(1,916)	1,916	-
(To)/from loan funds	(9,301)	1,541	(7,760)
(To)/from endowment and similar funds	(23,357)	-	(23,357)
(To)/from plant funds	(6,720,954)	-	(6,720,954)
Total other transfers and additions/(deductions)	(6,755,528)	2,068,946	(4,686,582)
Net increase (decrease) in fund balances	\$ (3,052,831)	\$ 2,068,946	\$ (983,885)

The accompanying notes to the financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

VIRGINIA COMMUNITY COLLEGE SYSTEM

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Virginia Community College System (VCCS) was established as an institution of higher education in 1965. The System includes the State Board for Community Colleges, a System Office located in Richmond, an Information Technology Utility that serves and administers the information technology needs for the individual colleges and 23 community colleges located on 40 campuses throughout the Commonwealth. A list of colleges included in this audit is found in the schedule entitled, "Colleges of the Virginia Community College System and Community College Presidents." The accompanying financial statements include all fund groups of the individual Community Colleges, the System Office, and the Information Technology Utility under the control of the State Board for Community Colleges.

The System was founded for the purpose of broadening the base of higher education in Virginia and providing a much wider variety of post-high school education and technical training opportunities than previously available. The State Board for Community Colleges governs the System, which follows higher education policy guidelines established by the State Council of Higher Education for Virginia. Operating and administrative responsibilities rest with the System Office in Richmond.

The System is a discrete component unit of the Commonwealth of Virginia and is included in the general-purpose financial statements of the Commonwealth. A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority.

The accompanying financial statements include the accounts of all organizational units of the Virginia Community College System. Each individual college and the System Office have educational foundations that are defined as related parties. The assets of related parties, which are separately incorporated and managed by their own boards, are not included in these statements. Related parties are described in Note 2.

B. Basis of Accounting

The financial statements of the System have been prepared in accordance with generally accepted accounting principles for colleges and universities. The System utilizes the accrual basis of accounting in accordance with the American Institute of Certified Public Accountants audit guide, Audits of Colleges and Universities. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred through the receipt of goods or services. However, the accompanying financial statements include no provision for depreciation of plant assets. The Statement of Current Funds Revenues, Expenditures, and Other Changes is a statement of financial

activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

C. Fund Accounting

To ensure the observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of “fund accounting.” Resources are classified for accounting and reporting purposes into funds that may be used for activities or objectives specified. Separate accounts are maintained for each fund, however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by actions of the State Board for Community Colleges and by the authority of the Commonwealth. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds, and are in contrast with unrestricted funds over which the governing board retains full control and use in achieving any of its institutional purposes, subject only to prescribed policies governing the use of state appropriations.

Unrestricted revenue is accounted for in the Unrestricted Current Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted Current Funds are reported as revenues and expenditures when expended for current operating purposes.

A summary of fund group definitions is as follows:

1. Current Funds - Current funds balances are separated into those that are restricted by donors and those that are unrestricted. Restricted funds may only be expended for those purposes indicated by the donor or grantor whereas unrestricted funds are available for current operations at the discretion of the System.
2. Loan Funds - Loan funds represent funds, which are limited by the terms of their donors or by action of the State Board for the purpose of making loans to students.
3. Endowment and Similar Funds - Endowment and similar funds record the usage of income from moneys subject to restrictions of gift instruments requiring that the principal be invested and only the income be expended. While the governing board has established quasi-endowment funds for the same purpose as endowment funds, any portion of quasi-endowment funds may be expended.
4. Plant Funds - Plant funds are divided into three groups: unexpended, renewals, replacements, and retirement of indebtedness, and net investment in plant. Unexpended plant

funds represent funds, which were specified by external sources or designated by the State Board for the acquisition and construction of physical properties. Renewals, replacements, and retirement of debt funds represent funds for the renovation and replacement of physical properties and includes resources held for the retirement of both principal and interest on debt. Investment in plant represents the capitalized value of physical property owned by the System, less associated long-term debt.

5. Agency Funds - Agency funds reflect funds held in trust by the System as custodian.

D. Inventories

Inventories are stated at cost (primarily first-in, first-out method) and consist mainly of goods purchased for resale and expendable supplies.

E. Investments

Interest-bearing temporary investments and other investments are stated at fair market value in accordance with GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools.

F. Investment in Plant

Plant assets consisting of land, buildings, site improvements, equipment, and construction in progress are stated at appraised historical cost or actual cost where determinable. Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is one year or more. Library acquisitions are capitalized using published average prices for library acquisitions. The accompanying financial statements include no provision for depreciation of plant assets.

G. Deferred Revenue

Deferred revenue consists primarily of student tuition collected for the summer academic term but not earned as of June 30, 2001. Revenues and expenditures for the summer academic term occur with two fiscal years because the term extends from May through August and the fiscal year ends on June 30. Expenses and an equal amount of revenue have been reported as revenues and expenses of the current period for the portion of the 2001 summer academic term covering the period May 16 through June 30, 2001.

H. Accrued Compensated Absences

Accrued compensated absences reflected in the accompanying financial statements represents the amounts of vacation, sick, and compensatory leave earned by employees of the System but not taken at June 30, 2001, as well as related fringe benefits. The amount reflects all earned vacation, sick, and compensatory leave payable under the Commonwealth of Virginia's leave payout policy and the System's faculty and administrator's leave payout policy upon employment termination. An additional liability amount has been included for those employees with less than five years of service based on the probability they will

eventually become vested. Also included in the liability is the System's share of the payroll taxes on leave balances for which employees will be compensated.

I. System Office Expenditures

The Central System Office of the VCCS provides a variety of functions ranging from management control to centralized support services. Because most of these activities are management in nature and cover the operation of the entire System, they have been classified as Institutional Support.

2. RELATED PARTIES

Each College and the System Office have organized educational foundations that provide exclusive benefit to the Colleges and System. The educational foundations are non-profit organizations created to raise funds supporting college programs, students, and related activities.

Limited members of the College Boards, locality appointed advisory boards of the System, represent the college on the related foundation's governing board. All educational foundations are independently audited. The State Board requires submission of annual financial statements to the System's Office. The following is a condensed summary of the financial condition of the foundations at June 30, 2001, except for Danville, John Tyler, New River, and Virginia Western Community Colleges that are as of December 31, 2000.

Assets	<u>\$76,441,802</u>
Liabilities	\$ 2,743,514
Net Assets	<u>73,698,288</u>
Total	<u>\$76,441,802</u>
Revenues	<u>\$11,911,457</u>
Expenditures	<u>\$ 8,578,836</u>

3. CASH AND INVESTMENTS

A. Cash and Cash Equivalents

Cash of the Virginia Community College System that is maintained by the Treasurer of Virginia is invested and collateralized pursuant to Section 2.1-177, et seq., Code of Virginia (1950), as amended, who is responsible for the collection, disbursement, custody and investment of State funds. Cash equivalents maintained by the System are investments with maturities of less than three months. Each fund's equity in pooled state funds is reported as "Cash and Cash Equivalents" on the balance sheet and is not categorized as to credit risk.

Deposits with banks and savings institutions, not with the Treasurer of Virginia, are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et seq. of the Code of Virginia. Under this Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of

the State Treasury board. Savings institutions are required to collateralize 100 percent in excess of FSLIC limits.

B. Investments

Certain deposits and investments are held by the System or are represented by specific identifiable investment securities held by the Treasurer of Virginia for the System. Such investments are reported separately from cash and cash equivalents. Investments represent securities with maturities of more than three months and for which management intends to hold the securities to maturity.

Statutes authorize the investment of funds held by the System in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the System may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's Incorporated, overnight term or open repurchase agreements and money market funds comprised of investments which are otherwise legal investments of the System.

C. Credit Risk

The System's cash equivalents and investments are categorized below to give an indication of the level of credit risk assumed by the System at June 30, 2001. Credit risk is the risk the System may not be able to obtain possession of its investment instrument or collateral at maturity.

- Category 1 - Investments which are insured or registered or for which the securities are held by the Virginia Community College System or its agent in the name of the System.
- Category 2 - Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the name of the Virginia Community College System.
- Category 3 - Uninsured and unregistered investments for which the securities held by the broker or dealer, or by its trust department or safekeeping agent but not in the name of the System.

Categorization of cash equivalents and investments held at June 30, 2001:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Fair Value</u>
<u>Cash Equivalents:</u>				
Categorized:				
Repurchase agreements	\$ 6,252,111	\$ 1,222,000	\$ 2,022,000	\$ 9,496,111
Non-Categorized:				
Mutual Funds	-	-	-	988,513
<u>Investments:</u>				
Categorized:				
U.S. Government Securities	1,143,456	-	-	1,143,456
Non-Categorized:				
Mutual Funds	-	-	-	488,235
Local Government Investment Pool	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,925,555</u>
Totals	<u>\$ 7,395,567</u>	<u>\$ 1,222,000</u>	<u>\$ 2,022,000</u>	<u>\$43,041,870</u>

Cash equivalents and investments for each fund group are shown below at fair value:

	<u>Cash Equivalents</u>	<u>Investments</u>
Current Funds:		
Unrestricted	\$ 7,599,629	\$ 17,158,508
Restricted	1,204	76,817
Loan Funds	45,897	19,069
Endowment Funds	-	230,789
Plant Funds	2,776,711	13,695,870
Agency Funds	<u>61,183</u>	<u>1,376,193</u>
Totals	<u>\$10,484,624</u>	<u>\$ 32,557,246</u>

4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The following receivables included an allowance for doubtful accounts at June 30, 2001:

Current Funds:

Accounts receivable - Gross	\$5,406,553
Less: Allowance for doubtful accounts	<u>(308,998)</u>
Accounts receivable - Net	<u><u>\$5,097,555</u></u>

Loan Funds:

Notes receivable - Gross	\$4,637,066
Less: Allowance for doubtful accounts	<u>(501,104)</u>
Notes receivable - Net	<u><u>\$4,135,962</u></u>

5. COMMITMENTS

At June 30, 2001, the VCCS had future commitments for construction contracts totaling approximately \$43,798,637. The System held \$2,632,801 as retainage payable on construction and architectural/engineering contracts for work performed. The retainage payable will be remitted to the various contractors upon satisfactory completion of the construction projects.

In addition, as of June 30, 2001, Thomas Nelson Community College has entered into a capital lease agreement for the construction and renovation of a building for which title will belong to the College at the completion of the lease terms. Due to the nature of the lease, the capital asset value at June 30, 2001 is less than the principal payment obligated for the remainder of the lease terms. The VCCS financial statements reflect a capital lease payable to the extent of the capital asset value at June 30, 2001. Capital lease obligations in excess of the capital asset value for Thomas Nelson Community College are \$1,953,080. This balance was not accrued. In future years, the VCCS will increase the current asset value associated with the lease based on the project costs. Corresponding liabilities will be accrued up to the current asset value.

6. NOTES PAYABLE

Notes payable represents an agreement with the Virginia Public Building Authority (VPBA) to finance parking improvements for the Midlothian campus of John Tyler Community College. The balance is to be repaid in ten annual installments ranging from \$35,000 to \$45,000 with an average interest rate of 4.72 percent payable semiannually. The final installment of \$45,000 is due September 1, 2008. The outstanding balance at June 30, 2001 is \$325,000.

7. BONDS PAYABLE

Long-term debt in the form of Bonds payable of the System as of June 30, 2001, consists of the following:

Higher Education Bonds, Series 1992A, issued \$3,010,000 to finance construction of a parking deck on the Alexandria campus of Northern Virginia Community College. The

balance is payable in annual installments from \$130,000 to \$145,000 with average coupon interest of 5.40 percent payable semiannually. The final installment of \$145,000 is due June 1, 2003. The outstanding balance at June 30, 2001 is \$285,000.

Higher Education Bonds, Series 1994 (9c), issued \$1,685,000 to finance construction of a parking lot on the Portsmouth campus of Tidewater Community College. The balance is payable in annual installments from \$190,000 to \$225,000 with an average coupon rate of 5.85 percent payable semiannually. The final installment of \$225,000 is due June 1, 2004. The outstanding balance at June 30, 2001 is \$635,000.

Higher Education Refunding Bonds, Series 1999, issued \$1,868,800 to advance refund a portion of the Higher Education Bonds, Series 1992A noted above. The balance is payable in annual installments ranging from approximately \$10,000 to \$240,000 with an average coupon rate of 4.32 percent payable semiannually. The final installment of \$239,167 is due June 1, 2012. The outstanding balance at June 30, 2001 is \$1,823,435.

Future Obligations

Aggregate annual maturities of bonds payable for fiscal years after 2001:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 350,247	\$ 135,250	\$ 485,497
2003	366,710	115,290	482,000
2004	391,660	94,258	485,918
2005	175,138	73,259	248,397
2006	178,778	65,377	244,155
Later years	<u>1,280,902</u>	<u>210,356</u>	<u>1,491,258</u>
Total debt service requirements	<u>\$2,743,435</u>	<u>\$ 693,790</u>	<u>\$3,437,225</u>

8. LEASE COMMITMENTS AND INSTALLMENT PURCHASES

The System is committed under various capital lease, operating lease, and installment purchase agreements. Book value of assets capitalized under capital lease and installment purchase agreements total \$64,103,939 and \$9,070,689, respectively. Rent expense under operating lease agreements amounted to \$5,865,917 for the year. A summary of future obligations under lease agreements as of June 30, 2001, follows:

Year Ending June 30,	Operating Lease Obligations	Capital Lease Obligations	Installment Purchase Obligations
2002	\$ 1,768,898	\$ 2,173,704	\$ 2,103,005
2003	1,260,868	2,645,144	1,868,567
2004	1,129,692	2,459,351	1,453,808
2005	1,091,022	2,456,126	458,236
2006	792,786	2,459,289	309,021
Later Years	<u>5,957,532</u>	<u>27,899,203</u>	<u>37,372</u>
Total obligation and gross minimum lease payment	<u>\$12,000,798</u>	40,092,817	6,230,009
Less: Amount of interest		<u>15,342,430</u>	<u>514,235</u>
Present value of minimum lease payments		<u>\$24,750,387</u>	<u>\$ 5,715,774</u>

9. EQUIPMENT TRUST FUND

The System receives an allocation from the Higher Education Equipment Trust Fund (ETF) of the Virginia College Building Authority (VCBA). The Higher Education Equipment Trust Fund provides funds to public colleges and universities for equipment acquisition. In prior years, funds were provided in the form of a lease. During the year ended June 30, 2001, the VCBA financed the ETF program with state funds, which will not require repayment. However, debt obligations are outstanding for prior fiscal years through 2003. The associated liability is combined with capital leases payable on the balance sheet in the Investment in Plant Fund. A summary of future obligations under prior lease agreements follows:

Year Ending June 30,	Equipment Trust Fund Obligation
2002	\$ 4,142,355
2003	<u>1,553,225</u>
Gross minimum lease payment	5,695,580
Less: Amount of interest	<u>301,977</u>
Present value of minimum lease payment	<u>\$ 5,393,603</u>

10. STATE APPROPRIATIONS – UNRESTRICTED FUNDS

The System receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next

year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the System for disbursement.

The following is a summary of state appropriations received by the System during the year ended June 30, 2001 including all supplemental appropriations.

Original legislative appropriations	\$304,843,232
Additions:	
Transfers from central appropriations:	
Classified salary adjustments	1,424,711
Employee health care insurance premium increase	1,309,395
Carryover – previous year unspent appropriations	14,409,057
SCHEV grant – VIVA library funds	17,604
Employee deferred compensation savings match	1,399,060
Less:	
Y2K loan payment	(1,038)
Automobile liability premium savings reversion	(18,856)
Electric rate savings reversion	(40,517)
Retiree health credit savings reversion	(847,400)
Retirement contribution savings reversion	(1,640,657)
Higher Education Equipment Trust Fund - non-general cash	(512,750)
Integrated human resource information system costs	(118,640)
Indemnity Bond Premium holiday	(10,550)
Philpott Manufacturing	(950,000)
General fund reversion	<u>(14,522,566)</u>
Adjusted appropriations	<u>\$304,740,085</u>

11. PENSION PLANS

Employees of the Virginia Community College System are employees of the Commonwealth. Substantially all full-time classified salaried employees of the System participate in a defined benefit pension plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information relating to these plans is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report (CAFR). The Commonwealth, not the System, has overall responsibility for contributions to these plans.

Most full-time faculty and certain administrative staff participate in one of five optional retirement plans. Each is a fixed contribution program where the retirement benefits received are based on the employer's contributions plus interest and dividends. As with VRS, the employees' contributions are assumed by the employer. Total pension costs under these programs were \$3,682,053 for the year ended June 30, 2001. Contributions to these programs were calculated using base salaries of \$35,404,355 for the year ended June 30, 2001. The contribution percentage amounted to 10.4 percent.

12. ACCOUNTING CHANGE

The System adopted GASB Statement Number 33 – Accounting and Financial Reporting for Nonexchange Transactions for the year ended June 30, 2001. This Statement set the guidelines for when to record revenue and expenditures for nonexchange transactions. Revenues and expenditures associated with transactions that do not meet the eligibility requirements are classified as deferred revenues and advances, respectively. As result of this Statement, the VCCS recorded deferred revenue in current restricted funds of \$56,726 for the year ended June 30, 2001.

13. DEFICIT FUND BALANCE

The \$3,867,446 deficit in current unrestricted funds is the result of the accrual of compensated absences and other payables.

14. CONTINGENCIES - GRANTS

The System receives assistance from non-state grantor agencies in the form of grants. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant agreements. Substantially all grants are subject to financial and compliance audits by the grantors. All disallowances as a result of these audits become a liability of the System. As of June 30, 2001, the System estimates that no material liabilities will result from such audits.

15. INTERFUND ASSETS/LIABILITIES

Due to other fund groups and due from other fund groups consist of the following interfund borrowings:

<u>Fund Group</u>	<u>Due From</u>	<u>Amount</u>
Unrestricted	Restricted	\$276,133
	Plant	<u>5,046</u>
		<u>\$281,179</u>
Restricted	Unrestricted	\$ 4,256
	Endowment	<u>126</u>
		<u>\$ 4,382</u>
Loan	Endowment	<u>\$ 101</u>
Plant	Restricted	<u>\$ 8,929</u>

16. RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and

natural disasters. The System participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and workers' compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk Management insurance includes property, general liability, faithful performance of duty bonds, automobile, and air and watercraft plans. The System pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

17. PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, issued November 1999, will be effective for the Virginia Community College System for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change significantly as a result of this Statement. In addition, management will be required to provide a management's discussion and analysis that gives readers an analysis of the System's overall financial position and results of operations including a comparison of current year results with the prior year. The System has completed its assessment of the changes required by this Statement and is preparing for implementation.

VIRGINIA COMMUNITY COLLEGE SYSTEM
Richmond, Virginia

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